

IRS



Fact Sheet

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Taxpayers Have More Direct Deposit Options for their 2006 Refunds

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Starting in 2007, taxpayers have more choices and flexibility for the direct deposit of their 2006 federal income tax refunds. For the first time, they can split their refunds among up to three accounts held by as many as three different U.S. financial institutions, such as banks, mutual funds, brokerage firms or credit unions.

This new, split-refund option is available to taxpayers who choose direct deposit regardless of whether they filed the original returns on paper or in electronic format using Form 1040, 1040A, 1040EZ, 1040-PR, 1040NR, 1040NR-EZ or 1040-SS. However, taxpayers filing Form 1040-EZ-T, Request for Refund of Federal Telephone Excise Tax, or Form 8379, Injured Spouse Allocation, cannot opt to split their refund.

To split their direct-deposit refunds among two or three different accounts or financial institutions, taxpayers should complete new Form 8888, Direct Deposit of Refund to More Than One Account. Taxpayers can continue, though, to use the direct deposit line on Form 1040 to electronically send their refunds to one account.

The split-dollar refund option gives taxpayers more choices for managing their refund, teamed with the speed and safety of direct deposit. In 2006, about 56.7 million taxpayers received direct deposit refunds out of a total of 134 million returns. Of the returns with direct deposits, a total of \$148.2 billion was refunded, with the average refund equaling \$2,612.

Opportunity for Asset Building

Split refunds offer taxpayers the opportunity to build assets by sending part of their refund to one account for immediate needs and another part to a savings or investment account for future needs. The IRS repeatedly has encouraged taxpayers to adjust their payroll withholding to ensure they pay only the taxes required. However, some people appear to view payroll withholding as a way to save money.

A recent study, "Refunds to Assets: Splitting Refunds and Building Assets," conducted by Harvard Business School and other interested parties, found that one in three lower-income taxpayers who were offered a choice opted to direct a portion of their refund into savings accounts. For many, it was their first savings experience with a financial institution.

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Regardless of taxpayers' filing methods — electronic or paper — direct deposit gives faster access to their funds than paper checks. The speed varies depending on whether the tax return is filed electronically or on paper.

For e-filed tax returns, taxpayers who request that their refunds be:

- Deposited directly into their accounts will receive their checks within two weeks.
- Sent in the form of a paper check will receive their checks within three weeks.

For paper return filers, taxpayers who request that their refunds be:

- Deposited directly into their accounts will receive their funds within four to six weeks.
- Sent in the form of a paper check will receive their funds within up to six weeks.

Requirements for Direct Deposit

The IRS will electronically deposit refunds to taxpayers' accounts held by a U.S. financial institution, providing:

- An accurate account number and American Bankers Association (ABA) routing number is supplied; and
- The financial institution accepts direct deposits for the type of accounts designated.

Taxpayers generally cannot directly deposit their refunds into someone else's account. However, in the case of a joint refund, taxpayers can designate deposits to a joint account or to an account controlled by a spouse. For example, the IRS will deposit a joint refund into an individual retirement arrangement (IRA) owned by one spouse, if the financial institution accepts direct deposits for IRAs and will accept a joint refund to an account of only one spouse.

Direct deposit acceptance varies among financial institutions, and taxpayers first should verify that their financial institutions will accept direct deposits for the types of accounts they are designating. For example, a financial institution may accept direct deposits for regular savings accounts, but not for education savings accounts.

Examples of the savings accounts taxpayers can choose to direct their refunds to include, but are not limited to:

- Regular passbook savings or checking accounts;
- Brokerage accounts;
- IRAs;

- Health savings accounts (HSAs);
- Archer MSAs;
- Coverdell education savings accounts; and
- Individual development accounts (IDAs)

Accuracy of Account and Routing Numbers

Taxpayers should verify routing and account numbers with their financial institutions. Although taxpayers can usually discern the routing number for their checking account from the face of their checks, routing numbers for other types of accounts are not always apparent. IRS assumes no responsibility for taxpayer or preparer error and taxpayers should ensure their account and routing information is accurately entered.

Errors could result in different scenarios. For example:

- If taxpayers omit a digit from the account or routing number of one account and the number does not pass IRS' validation check, the IRS will mail a check for the entire amount of their refund ;
- If taxpayers incorrectly enter an account or routing number and a designated financial institution rejects and returns the deposits to the IRS, the IRS will issue a check for that portion of the refund; or
- If taxpayers incorrectly enter an account or routing number belonging to others and the designated financial institutions accepts the deposits, taxpayers must work directly with the respective financial institution to recover the funds.

Direct Deposits to IRAs

As with all IRA deposits, account owners are responsible for informing their IRA trustee of the year for which the directly deposited refund is intended and for ensuring their contributions do not exceed their annual contribution limitations. IRS direct deposits of refunds will not indicate a contribution year for IRA accounts. If taxpayers fail to notify their IRA trustees of the intended year for the deposit, their trustees can assume the deposits are for 2007.

The IRS is not responsible for the timeliness or contribution amounts related to an IRA direct deposit. Since errors on returns or refund offsets could change the amount of refunds available for deposit, taxpayers who want to apply their refunds to 2006 IRA contributions should confirm the amount of the deposit and the deposit date and make any necessary corrections to their 2006 contributions before their filing deadlines.

If the deposit is not made into the account by the due date of the return (without regard to extensions), the deposit is not a contribution for 2006. Taxpayers must file amended 2006

returns and reduce any IRA deductions and any retirement savings contributions credits they claimed.

Adjusting Deposits for Errors and Offsets

Several factors could change the amount of taxpayers' refunds. Math errors — one of the top mistakes on returns — can increase or decrease taxpayers' refunds and the amounts available for deposit. Among other things, refund offsets for delinquent federal/state taxes, child support payments, student loan payments and freezes on the Earned Income Tax Credit (EITC) portion of a refund also can decrease the refund amount available for deposit.

Adjusting for a larger refund: If a taxpayer makes a mistake on a return that results in a larger-than-expected refund, the IRS will add the difference to the last account designated in cases where a split refund has been requested. For example, a taxpayer's return shows a refund of \$300 and the taxpayer asks IRS to split the refund among three accounts, depositing \$100 to each. However, because the taxpayer had incorrectly figured the refund, the correct refund is actually higher by \$150. Thus, the first two accounts will receive a deposit of \$100 each and the third account will receive a deposit of \$250.

Adjusting for a smaller refund: If a math error or a delinquent tax adjustment reduces a refund, the IRS will take a similar approach to the adjustment and first deduct the difference from the amount designated for deposit to the last account. If the difference exceeds the amount designated for the last account, IRS will deduct the remainder from the amount designated to the next account and so on. Taxpayers will receive correspondence from the IRS explaining any adjustments to their returns, refund amounts and direct deposits.

The IRS recommends that taxpayers use electronic filing to avoid math errors and other common problems that can result in adjustments to their returns and change the expected amount of their refunds.

For example, a taxpayer's return shows a refund of \$300 and the taxpayer asks the IRS to split the refund among three accounts, with \$100 to each account. Due to a math error, the refund is decreased by \$150. The IRS will adjust the direct deposits as follows:

Requested:	Actual direct deposits:	
Account 1:	\$100	\$100
Account 2:	\$100	\$50 (\$100 requested less \$50 adjustment)
Account 3:	\$100	\$0 (\$100 requested less \$100 adjustment)

Adjusting deposits for EITC freezes: If the IRS withholds or freezes the EITC portion of taxpayers' refunds while awaiting additional information to verify taxpayer eligibility, the IRS will deposit any non-EITC refund according to the approach discussed above. If the IRS later

determines the taxpayer is eligible to receive the EITC, the IRS will deposit the amount withheld into the first account designated.

Adjusting deposits for delinquent state taxes, child support, etc.: If taxpayers owe delinquent state income taxes, outstanding child support payments or delinquent non-tax federal debts, such as student loans, the Department of Treasury's Financial Management Service (FMS), which disburses IRS refunds, may offset the refund by the delinquent amount. These offsets could occur whether taxpayers opt to receive their refunds via paper checks or direct deposits to one or several accounts.

FMS will deduct past-due amounts from the payment that appears first on IRS' payment file, which orders accounts from the lowest to the highest routing number. If the debt exceeds the payment designated for the account that appears first on the payment file, FMS will reduce the payment designated for the account that appears next, and so on.

Taxpayers will receive correspondence from FMS explaining any offset amounts, the entities receiving the payments, the address and telephone number of the entities and the amounts of their refund/direct deposit offsets. Taxpayers who dispute the debts should contact the debt-controlling agencies shown on the notice, not the IRS, since the IRS has no information about the validity of the debt.

Where's My Refund?, the most convenient source for refund information

Whether taxpayers direct deposit their refunds into several accounts, into one account or opt to receive paper checks, they can use IRS' popular Where's My Refund? feature to track their refunds. Taxpayers can access Where's My Refund? online at IRS.gov or by calling 1-800-829-1954.

Where's My Refund? will include a message confirming the refund was split and the expected date of deposit. It will not specify the amount of the individual deposits or the accounts to which the deposits were made, but will state the amount of an adjustment, if IRS or FMS altered the refund amount due to math errors, offsets or other reasons.

Inviting Stakeholder Input

The IRS invites stakeholders and partners to tell us about their experience with 2006 split-dollar refund option. What worked and what can be improved? We welcome feedback from stakeholders about their experiences assisting their customers and clients during the filing season and will use this feedback to modify and improve the process for 2007 refunds.

Stakeholders can comment through their IRS stakeholder relationship manager or via e-mail to splitrefundcomments@irs.gov. Although the IRS will read and consider every suggestion or comment, the IRS does not have the capability to respond to individual e-mail messages.